

CITY OF NEOSHO RAPIDS

LYON COUNTY, KANSAS

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

For the Year Ended December 31, 2009

Aldrich & Company, LLC
Certified Public Accountants
Council Grove, Kansas

CITY OF NEOSHO RAPIDS
LYON COUNTY, KANSAS

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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Independent Auditors' Report

Mayor and City Council
City of Neosho Rapids, Kansas

We have audited the accompanying financial statements of the City of Neosho Rapids, Kansas, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the City of Neosho Rapids, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, the City of Neosho Rapids, Kansas has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of differences between Kansas statutory basis and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Neosho Rapids as of December 31, 2009, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Neosho Rapids, as of December 31, 2009, and its cash receipts and expenditures and budgetary comparisons, for the year then ended, taken as a whole, on the basis of accounting described in Note A.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2010, on our consideration of the City of Neosho Rapids, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Neosho Rapids, Kansas' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Aldrich & Company, LLC

Aldrich & Company CPA's, LLC
September 24, 2010

City of Neosho Rapids
Lyon County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2009

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 23,083	\$ 50,433	\$ 54,332	\$ 19,184	\$ 2,186	\$ 21,370
Special Revenue Funds						
Special Highway	4,620	8,020	7,178	5,462	631	6,093
Memorial Building	11,273	1,278	3,275	9,276	0	9,276
Capital Improvements	28,710	0	0	28,710	0	28,710
Capital Projects						
Sewer Project	(73,680)	1,665,465	1,574,644	17,141	5,800	22,941
Enterprise Funds						
Gas Utility	71,662	152,554	45,080	179,136	775	179,911
Sewer Utility	<u>38,310</u>	<u>102,318</u>	<u>30,585</u>	<u>110,043</u>	<u>634</u>	<u>110,677</u>
Total Reporting Entity	<u>\$ 103,978</u>	<u>\$ 1,980,068</u>	<u>\$ 1,715,094</u>	<u>\$ 368,953</u>	<u>\$ 10,026</u>	<u>\$ 378,979</u>

Composition of Cash:

Regular checking	\$ 248,037
CDBG checking	88
USDA checking	22,854
Certificates of Deposit	<u>108,000</u>
	<u>\$ 378,979</u>

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 2

Summary of Expenditures – Actual and Budget
(Budget Funds Only)
For the Year Ended December 31, 2009

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General Fund	\$ 54,401	\$ 0	\$ 54,401	\$ 54,332	\$ 69
Special Revenue Funds					
Special Highway	18,534	0	18,534	7,178	11,356
Memorial Building	4,000	0	4,000	3,275	725
Enterprise Funds					
Gas Utility	153,419	0	153,419	45,080	108,339
Sewer Utility	98,598	0	98,598	30,585	68,013

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2009

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Lyon County Treasurer	\$ 28,828	\$ 30,205	\$ (1,377)
City & County revenue sharing	0	910	(910)
Sales tax	6,657	0	6,657
Refunds & franchise	7,107	4,000	3,107
Rent	3,450	3,000	450
Interest income	1,486	200	1,286
Miscellaneous	45	200	(155)
Insurance proceeds	2,861	0	2,861
Transfers	0	2,000	(2,000)
Total Cash Receipts	50,433	40,515	9,918
Expenditures			
Salaries	16,853	16,000	(853)
Employee benefits	1,767	3,000	1,233
Supplies & repairs	5,048	8,000	2,952
Utilities	9,440	9,000	(440)
Insurance & taxes	7,991	9,000	1,009
Legal fees	0	8,000	8,000
Miscellaneous	176	1,401	1,225
Capital outlay	13,057	0	(13,057)
Total expenditures	54,332	54,401	69
Receipts Over (Under) Expenditures	(3,899)	\$ (13,886)	\$ 9,987
Unencumbered Cash, January 1	23,083		
Unencumbered Cash, December 31	\$ 19,184		

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-2

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2009

SPECIAL HIGHWAY

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Lyon County transfers	\$ 760	\$ 890	\$ (130)
Special highway	6,894	8,120	(1,227)
Sales tax	366	0	366
Transfers in	0	5,000	(5,000)
	<u>8,020</u>	<u>14,010</u>	<u>(5,990)</u>
Total cash receipts			
Expenditures			
Salaries	1,269	5,000	3,731
Fuel & oil	563	2,000	1,437
Supplies & repairs	184	5,000	4,816
Blacktop & gravel	269	6,534	6,265
Capital outlay	4,843	0	(4,843)
Miscellaneous	50	0	(50)
	<u>7,178</u>	<u>18,534</u>	<u>11,356</u>
Total expenditures			
Receipts Over (Under) Expenditures	842	<u>\$ (4,524)</u>	<u>\$ 5,366</u>
Unencumbered Cash, January 1	<u>4,620</u>		
Unencumbered Cash, December 31	<u>\$ 5,462</u>		

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-3

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2009

MEMORIAL BUILDING

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Donations	\$ 1,278	\$ 2,000	\$ (722)
Total cash receipts	1,278	2,000	(722)
Expenditures			
Maintenance & purchases	3,275	4,000	725
Total Expenditures	3,275	4,000	725
Receipts Over (Under) Expenditures	(1,997)	<u>(2,000)</u>	<u>3</u>
Unencumbered Cash, January 1	11,273		
Unencumbered Cash, December 31	<u>\$ 9,276</u>		

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-4

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2009

CAPITAL IMPROVEMENTS

	<u>Current Year</u>
	<u>Actual</u>
Cash Receipts	
Transfers in	\$ <u>0</u>
 Total Cash Receipts	 <u>0</u>
 Expenditures	
Capital improvements	<u>0</u>
Total Expenditures	<u>0</u>
 Receipts Over (Under) Expenditures	 0
 Unencumbered Cash, January 1	 <u>28,710</u>
 Unencumbered Cash, December 31	 <u>\$ 28,710</u>

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-5

CAPITAL PROJECTS FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2009

SEWER PROJECT

	<u>Current Year</u>
	<u>Actual</u>
Cash Receipts	
Interest	\$ 515
CDBG grant	390,950
USDA grant	58,000
Temporary note proceeds	608,000
General obligation bond proceeds	<u>608,000</u>
Total Cash Receipts	<u>1,665,465</u>
Expenditures	
Sewer project costs	916,878
Reimburse prior year expenses to sewer fund	49,766
Temporary note principal repayment	<u>608,000</u>
Total Expenditures	<u>1,574,644</u>
Receipts Over (Under) Expenditures	90,821
Unencumbered Cash, January 1	<u>(73,680)</u>
Unencumbered Cash, December 31	<u>\$ 17,141</u>

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-6

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2009

GAS UTILITY FUND

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Charges for services	\$ 85,716	\$ 100,000	\$ (14,284)
Sale of utility	64,664	0	64,664
Interest	2,174	3,000	(826)
Total Cash Receipts	152,554	103,000	49,554
Expenditures			
Salaries	3,900	9,000	5,100
Gas purchases	27,108	80,000	52,892
Supplies & repairs	413	20,000	19,587
Contracts & assessments	11,702	15,000	3,298
Capital outlay	0	24,319	24,319
Miscellaneous	404	100	(304)
Sales tax	303	0	(303)
Deposit refunds	1,250	0	(1,250)
Transfers	0	5,000	5,000
Total Expenditures	45,080	153,419	108,339
Receipts Over (Under) Expenditures	107,474	<u>\$ (50,419)</u>	<u>\$ 157,893</u>
Unencumbered Cash, January 1	<u>71,662</u>		
Unencumbered Cash, December 31	<u>\$ 179,136</u>		

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

Statement 3-7

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2009

SEWER UTILITY FUND

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Charges for services	\$ 52,552	\$ 40,000	\$ 12,552
Sewer project reimbursements	49,766	0	49,766
Total Cash Receipts	102,318	40,000	62,318
Expenditures			
Salaries & wages	4,312	15,000	10,688
Utilities	1,237	2,000	763
Supplies & repairs	3,923	5,000	1,077
Samples & permits	1,199	1,000	(199)
Sewer project expense	11,774	73,598	61,824
Capital outlay	8,000	0	(8,000)
Miscellaneous	140	0	(140)
Transfer to General	0	2,000	2,000
Total Expenditures	30,585	98,598	68,013
Receipts Over (Under) Expenditures	71,733	<u><u>\$ (58,598)</u></u>	<u><u>\$ 130,331</u></u>
Unencumbered Cash, January 1	38,310		
Unencumbered Cash, December 31	<u><u>\$ 110,043</u></u>		

The notes to the financial statements are an integral part of this statement.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Neosho Rapids has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the City's accounting policies are described below.

1. Reporting Entity

The City of Neosho Rapids, Kansas operates as a third class city in accordance with the laws of the State of Kansas. The City is governed by an elected mayor and five-member council. This report includes all services provided by the City to residents and businesses within its boundaries. Services provided include street maintenance and general administrative services. In addition, the City owns or owned and operated two major enterprise activities - a local sewer system and gas system.

2. Basis of Presentation

These financial statements are presented on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

3. Departure from Accounting Principles Generally Accepted in the United States of America

The city has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting. This basis of accounting results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

4. Fund Accounting

The accounts of the city are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for separately. Funds are classified into three categories; governmental, proprietary and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

Governmental Fund Types

General Fund - The general fund is the general operating fund of the city and accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Improvements Funds - Funds used to account for financial resources for the acquisition or construction of major capital facilities of the City.

Proprietary Fund Types

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing sewer and gas services to the general public on a continuing basis is financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE B - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempt by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in the local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
- d. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- e. Adoption of final budget on or before August 25th.

The statutes allow the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the budget amended. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE B – BUDGETARY INFORMATION (CONT)

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budget authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, and permanent funds. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE C – DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities, repurchase agreements, temporary notes, no-fund warrants, and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2009.

At December 31, 2009, the carrying amount of the city's deposits, excluding petty cash funds, was \$378,979 and the bank balance was \$380,114. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remainder was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the city's name.

NOTE D – PROPERTY TAXES

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser annually determines assessed valuations based on real estate transactions recorded by the Register of Deeds and personal property transactions reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the County.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE D – PROPERTY TAXES (CONT)

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. One-half of the property tax is due December 20th prior to the fiscal year for which they are budgeted, and the second half is due the following May 10th. The county treasurer collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operation.

Undistributed taxes from the prior year levy are recognized as income in the current year. It is not practicable to apportion delinquent taxes held by the county treasurer at year end and, further, the amounts are not material in relationship to the financial statements taken as a whole.

NOTE E – DEPOSITS

The City requires all new customers to provide a \$105 security deposit for sewer service. Customer's deposits are refunded after one year or when the customer moves and terminates service. No amount has included on the long term debt schedule.

NOTE F – GAS UTILITY SALE AGREEMENT

The City of Neosho Rapids entered into an agreement with Black Hills/Kansas Gas Utility Company, LLC on June 10, 2009 to sell its natural gas distribution system for \$64,664. The city received full payment of the contract amount on August 10, 2009.

NOTE G – CAPITAL PROJECTS

The City approved a sewer improvement project at an estimated cost of \$1,180,000 to be funded with a Community Development Block Grant totaling \$400,000, a USDA Rural Development grant totaling \$172,000 and General Obligation Bonds purchased by USDA Rural Development totaling \$608,000. The funds for this project were deposited into separate bank accounts. Funds drawn as of December 31, 2009 included \$395,300 from CDBG grant funds, \$608,000 from general obligation bonds purchased by USDA, and \$58,000 from USDA grant funds. Expenditures for this project through December 31, 2009 totaled \$1,056,448. The sewer system project will be substantially complete in 2010.

NOTE H – LONG TERM DEBT

The City issued \$608,000 in General Obligation Bonds on December 28, 2009 to finance a portion of the cost of capital improvements to its sewer system. The USDA Rural Development purchased these general obligation bonds. Beginning in December 2010, annual principal and interest payments are scheduled to be paid from revenues of the Sewer Utility. The bonds carry interest rates of 4.25%, and are to be retired on December 28, 2049.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE H – LONG TERM DEBT (CONT)

Changes in long term debt are as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
General Obligation Bonds:										
Series 2009-Sewer Project	4.25%	12/28/2009	608,000	12/28/2049	\$ 0	\$ 608,000	\$ 0	\$ 0	\$ 608,000	\$ 0
Total long-term debt					<u>\$ 0</u>	<u>\$ 608,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 608,000</u>	<u>\$ 0</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015-2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>2035-2039</u>	<u>2040-2044</u>	<u>2045-2049</u>	<u>Total</u>
Principal													
G.O. Bonds:													
Sewer Series 2009	6,000	6,000	7,000	7,000	7,000	40,000	50,000	61,000	75,000	93,000	115,000	141,000	608,000
Interest													
G.O. Bonds:													
Sewer Series 2009	<u>25,840</u>	<u>25,585</u>	<u>25,330</u>	<u>25,033</u>	<u>24,735</u>	<u>118,958</u>	<u>109,608</u>	<u>98,090</u>	<u>83,980</u>	<u>66,555</u>	<u>45,050</u>	<u>18,488</u>	<u>667,252</u>
Total Principal and Interest	<u>\$ 31,840</u>	<u>\$ 31,585</u>	<u>\$ 32,330</u>	<u>\$ 32,033</u>	<u>\$ 31,735</u>	<u>\$ 158,958</u>	<u>\$ 159,608</u>	<u>\$ 159,090</u>	<u>\$ 158,980</u>	<u>\$ 159,555</u>	<u>\$ 160,050</u>	<u>\$ 159,488</u>	<u>\$ 1,275,252</u>

City of Neosho Rapids
Lyon County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The city has been unable to obtain workers compensation insurance at a cost it considered to be economically justifiable. For this reason, the city joined together with other cities in the State to participate in the Kansas Municipal Insurance Trust (KMIT), a public entity risk pool currently operating as a common risk management and insurance program for its participating members.

The city pays an annual premium to KMIT for its worker's compensation insurance coverage. The agreement to participate provides that the KMIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of a specified amount for each insured event. Additional premiums may be due if total claims for the pool are different than what has been anticipated by KMIT management. The city continues to carry commercial insurance for all other risks of loss, including property and liability insurance. Insurance claims have not exceeded commercial insurance coverage in any of the past three years.

NOTE J – ESTIMATES

The preparation of financial statements in conformity with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ.

NOTE K – COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

The annual publication of the city's financial statement was not made. K.S.A. 12-1608

Management is not aware of any other items of noncompliance with Kansas statutes.

City of Neosho Rapids
Lyon County, Kansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

Schedule 1

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Direct program-Water and Waste Disposal Systems for Rural Communities	10.760		\$ 538,720
U.S. Department of Housing and Urban Development			
Pass-through program-Community Development Block Grants/State's Program	14.228	08-PF-809	<u>389,932</u>
Total expenditures of federal awards			<u>\$ 928,652</u>

See accompanying notes to schedule of expenditures of Federal Awards.

City of Neosho Rapids
Lyon County, Kansas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Neosho Rapids under programs of the federal government for the year ended December 31, 2009. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Neosho Rapids, it is not intended to and does not present the cash receipts, cash disbursements and unencumbered cash of the City of Neosho Rapids.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE C – USDA FEDERAL AWARDS

The USDA Rural Development awarded the City of Neosho Rapids a grant totaling \$172,000. The USDA Rural Development also purchased General Obligation Bonds issued by the City valued at \$608,000. The federal expenditures for this program in the amount of \$538,720 reported on the Schedule are reported on the statutory basis of accounting as described in Note B above. In 2009, the city expended \$53,236 of the USDA Rural Development grant and \$485,484 of the bond proceeds. The remainder of the \$608,000 loan by the USDA Rural Development, or \$122,516, was expended by the city prior to 2009. The entire \$608,000 of the City's General Obligation Bonds, purchased by the USDA Rural Development, remain outstanding at December 31, 2009.

ALDRICH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Neosho Rapids, Kansas

We have audited the statutory basis financial statements of the City of Neosho Rapids, Kansas, as of and for the year ended December 31, 2009, which collectively comprise the City of Neosho Rapids, Kansas' financial statements and have issued our report thereon dated September 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Neosho Rapids, Kansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, these can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2009-2 and 2009-3.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency 2009-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Neosho Rapids, Kansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Neosho Rapids, Kansas, in a separate letter dated September 24, 2010

City of Neosho Rapids, Kansas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Neosho Rapids, Kansas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aldrich & Company, LLC

Aldrich & Company CPA's, LLC
Council Grove, Kansas
September 24, 2010

ALDRICH & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Neosho Rapids, Kansas

Compliance

We have audited the City of Neosho Rapids, Kansas' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City's major federal programs for the year ended December 31, 2009. City of Neosho Rapids, Kansas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Neosho Rapids, Kansas' management. Our responsibility is to express an opinion on City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Neosho Rapids, Kansas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Neosho Rapids, Kansas' compliance with those requirements.

In our opinion, City of Neosho Rapids, Kansas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009.

Internal Control over Compliance

Management of City of Neosho Rapids, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Neosho Rapids, Kansas' internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected,

corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aldrich & Company, LLC

Aldrich & Company CPA's, LLC
Council Grove, Kansas
September 24, 2010

City of Neosho Rapids
Lyon County, Kansas

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Neosho Rapids, Kansas on the Kansas statutory basis of accounting.
2. Three significant deficiencies were disclosed during the audit of the financial statements are reported in the internal control communication. Two of the conditions are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Neosho Rapids were disclosed during the audit.
4. Three significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Two are reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for the City of Neosho Rapids expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: Water and Wastewater Disposal Systems for Rural Communities CFDA 10.760 and Community Development Block Grant/State's Program CFDA 14.228.
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. The City of Neosho Rapids was determined to not be a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2009-1 Financial statement preparation.

Condition: The city required assistance in preparing their financial statements.

Criteria: Internal controls should be in place over the preparation of the financial statements to ensure an accurate and complete presentation.

Cause: The city has only part-time staff and limited resources.

Effect: The city's financial statements could result in an incomplete presentation.

Recommendation: Procedures should be implemented to ensure that the city's staff who are responsible for the oversight of financial statement preparation, continue to obtain relevant education in preparing Kansas statutory basis financial statements.

City response: The city agrees with the finding and will implement the recommended procedures.

MATERIAL WEAKNESSES

2009-2 Proposed and accepted journal entries for receipting.

Condition: Proposed and accepted journal entries, dealing with the fund classification of sales tax receipts, were material to the financial statements.

Criteria: Internal controls should be in place, which provide reasonable assurance that all receipts including new revenue sources, are properly classified in accordance with Kansas Statutes.

Cause: Internal controls over receipts were not properly designed.

Effect: Because of the lack of proper review of the receipt posting, receipts could be incorrectly posted.

Recommendation: Procedures should be implemented to ensure that all receipts are properly posting to the correct fund.

City response: The city agrees with the finding and will implement the recommended procedures.

City of Neosho Rapids
Lyon County, Kansas

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

2009-3 Inadequate segregation of duties

Condition: There are not a sufficient amount of employees in which to perform duties. The city treasurer is responsible for most recordkeeping activities. However, the city did hire a grant administrator for the sewer project.

Criteria: Internal controls should be in place to monitor the duties of the treasurer.

Cause: The city is extremely small and only employs a part-time treasurer for all record keeping duties.

Effect: Because of the lack of personnel, the city treasurer could stop performing his duties and the problem may not be timely detected.

Recommendation: Procedures should be implemented that require council and mayor involvement in overseeing these assigned duties.

City response: The mayor and council will continue to closely monitor duties performed by the treasurer and contract for professional assistance as necessary.